

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2007

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|--------------------------------------|--|--------------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Township of Tobacco | County Gladwin |
| Audit Date March 31, 2007 | Opinion Date July 16, 2007 | Date Accountant Report Submitted to State: July 20, 2007 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|-------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C. | | | |
| Street Address 512 N. Lincoln, Suite 100, P.O. Box 686 | City Bay City | State MI | Zip 48707 |
| Accountant Signature Campbell, Kusterer & Co., PC | | | |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

July 16, 2007

To the Township Board
Township of Tobacco
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Tobacco, Gladwin County, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Tobacco's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Tobacco, Gladwin County, Michigan as of March 31, 2007, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., PC
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

The Management's Discussion and Analysis report of the Township of Tobacco covers the Township's financial performance during the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2007, totaled \$703,260.09 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$554,300.46 from governmental activities. Governmental activities had a \$28,699.49 decrease in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, the Fire Fund, Garbage Fund, Petrick Pine Fund, Daleview Fund, Heron Cove Fund, and the Current Tax Collection Fund.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Fire Fund, Garbage Fund, Petrick Pine Fund, Heron Cove Fund, and the Daleview Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$197,728.84.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in fixed assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk, Roshelle Brubaker at 989-435-4525.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash in bank | 534 421 11 |
| Taxes receivable | 19 098 39 |
| Special assessments receivable | <u>10 830 00</u> |
| Total Current Assets | <u>564 349 50</u> |
| NON-CURRENT ASSETS: | |
| Capital Assets | 228 806 00 |
| Less: Accumulated Depreciation | <u>(89 895 41)</u> |
| Total Non-current Assets | <u>138 910 59</u> |
| TOTAL ASSETS | <u><u>703 260 09</u></u> |
| LIABILITIES AND NET ASSETS: | |
| LIABILITIES: | |
| CURRENT LIABILITIES | <u>-</u> |
| Total Current Liabilities | <u>-</u> |
| NON-CURRENT LIABILITIES | <u>-</u> |
| Total Non-current Liabilities | <u>-</u> |
| Total Liabilities | <u>-</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 138 910 59 |
| Unrestricted | <u>564 349 50</u> |
| Total Net Assets | <u>703 260 09</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>703 260 09</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2007

| | <u>Expenses</u> | <u>Program Revenue</u> <u>Charges for Services</u> | <u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u> |
|-------------------------------|-------------------|---|--|
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities: | | | |
| Legislative | 16 981 27 | - | (16 981 27) |
| General government | 105 139 11 | 44 778 80 | (60 360 31) |
| Public safety | 119 613 63 | - | (119 613 63) |
| Public works | 333 587 44 | 106 386 34 | (227 201 10) |
| Other | <u>7 678 50</u> | <u>-</u> | <u>(7 678 50)</u> |
| Total Governmental Activities | <u>582 999 95</u> | <u>151 165 14</u> | <u>(431 834 81)</u> |
| General Revenues: | | | |
| Property taxes | | | 201 756 84 |
| State revenue sharing | | | 177 803 24 |
| Interest | | | 11 795 81 |
| Miscellaneous | | | <u>11 779 43</u> |
| Total General Revenues | | | <u>403 135 32</u> |
| Change in net assets | | | (28 699 49) |
| Net assets, beginning of year | | | <u>731 959 58</u> |
| Net Assets, End of Year | | | <u>703 260 09</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2007

| | <u>General</u> | <u>Garbage</u> | <u>Fire Protection</u> |
|---|--------------------------|--------------------------|--------------------------|
| <u>Assets</u> | | | |
| Cash in bank | 251 684 22 | 104 514 53 | 154 593 25 |
| Taxes receivable | 7 567 85 | - | 11 530 54 |
| Special assessments receivable | - | 10 595 00 | - |
| Due from other funds | <u>18 349 24</u> | <u>-</u> | <u>155 58</u> |
| Total Assets | <u><u>277 601 31</u></u> | <u><u>115 109 53</u></u> | <u><u>166 279 37</u></u> |
| <u>Liabilities and Fund Equity</u> | | | |
| Liabilities: | | | |
| Due to other funds | <u>-</u> | <u>-</u> | <u>300 00</u> |
| Total liabilities | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>300 00</u></u> |
| Fund equity: | | | |
| Fund balances: | | | |
| Unreserved: | | | |
| Undesignated | <u>277 601 31</u> | <u>115 109 53</u> | <u>165 979 37</u> |
| Total fund equity | <u><u>277 601 31</u></u> | <u><u>115 109 53</u></u> | <u><u>165 979 37</u></u> |
| Total Liabilities and Fund Equity | <u><u>277 601 31</u></u> | <u><u>115 109 53</u></u> | <u><u>166 279 37</u></u> |

The accompanying notes are an integral part of these financial statements.

| <u>Other Funds</u> | <u>Total</u> |
|--------------------|-------------------|
| 7 955 48 | 518 747 48 |
| - | 19 098 39 |
| 235 00 | 10 830 00 |
| <u>603 40</u> | <u>19 108 22</u> |
| <u>8 793 88</u> | <u>567 784 09</u> |

| | |
|-----------------|-----------------|
| <u>3 134 59</u> | <u>3 434 59</u> |
| <u>3 134 59</u> | <u>3 434 59</u> |

| | |
|-----------------|-------------------|
| <u>5 659 29</u> | <u>564 349 50</u> |
| <u>5 659 29</u> | <u>564 349 50</u> |
| <u>8 793 88</u> | <u>567 784 09</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2007

| | |
|---|--------------------------|
| TOTAL FUND BALANCES – GOVERNMENTAL FUNDS | 564 349 50 |
| Amounts reported for governmental activities in the statement of net assets are different because – | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet: | |
| Capital assets at cost | 228 806 00 |
| Accumulated depreciation | <u>(89 895 41)</u> |
| TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES | <u><u>703 260 09</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2007

| | <u>General</u> | <u>Garbage</u> | <u>Fire Protection</u> |
|---|--------------------------|--------------------------|--------------------------|
| Revenues: | | | |
| Property taxes | 66 156 02 | - | 135 600 82 |
| Licenses and permits | 5 959 15 | - | - |
| State revenue sharing | 177 803 24 | - | - |
| Charges for services – PTAF | 34 619 65 | - | - |
| Charges for services – cemetery | 4 200 00 | | |
| Interest | 10 485 69 | 613 30 | 674 37 |
| Special assessments | - | 98 478 86 | - |
| Miscellaneous | <u>11 779 43</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>311 003 18</u> | <u>99 092 16</u> | <u>136 275 19</u> |
| Expenditures: | | | |
| Legislative: | | | |
| Township Board | 16 981 27 | - | - |
| General government: | | | |
| Supervisor | 11 087 25 | - | - |
| Elections | 3 226 61 | - | - |
| Assessor | 29 325 63 | - | - |
| Clerk | 13 820 75 | - | - |
| Board of Review | 647 50 | - | - |
| Treasurer | 27 034 74 | - | - |
| Building and grounds | 7 697 56 | - | - |
| Cemetery | 10 255 59 | - | - |
| Public safety: | | | |
| Fire protection | - | - | 104 379 60 |
| Planning | 6 538 92 | - | - |
| Zoning | 8 695 11 | - | - |
| Police protection | - | - | - |
| Public works: | | | |
| Highways and streets | 197 728 84 | - | - |
| Street lights | 1 701 86 | - | - |
| Sanitation | - | 114 056 12 | - |
| Other: | | | |
| Pension | 3 179 50 | - | - |
| Insurance | <u>4 499 00</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>342 420 13</u> | <u>114 056 12</u> | <u>104 379 60</u> |
| Excess (deficiency) of revenues over expenditures | (31 416 95) | (14 963 96) | 31 895 59 |
| Fund balances, April 1 | <u>309 018 26</u> | <u>130 073 49</u> | <u>134 083 78</u> |
| Fund Balances, March 31 | <u><u>277 601 31</u></u> | <u><u>115 109 53</u></u> | <u><u>165 979 37</u></u> |

The accompanying notes are an integral part of these financial statements.

| <u>Other Funds</u> | <u>Total</u> |
|--------------------|-------------------|
| - | 201 756 84 |
| - | 5 959 15 |
| - | 177 803 24 |
| - | 34 619 65 |
| - | 4 200 00 |
| 22 45 | 11 795 81 |
| 7 907 48 | 106 386 34 |
| - | 11 779 43 |
| <u>7 929 93</u> | <u>554 300 46</u> |

| | |
|-----------------|-------------------|
| - | 16 981 27 |
| - | 11 087 25 |
| - | 3 226 61 |
| - | 29 325 63 |
| - | 13 820 75 |
| - | 647 50 |
| - | 27 034 74 |
| - | 7 697 56 |
| - | 10 255 59 |
| - | 104 379 60 |
| - | 6 538 92 |
| - | 8 695 11 |
| - | - |
| 8 251 09 | 205 979 93 |
| - | 1 701 86 |
| - | 114 056 12 |
| - | 3 179 50 |
| - | 4 499 00 |
| <u>8 251 09</u> | <u>569 106 94</u> |

| | |
|-----------------|-------------------|
| (321 16) | (14 806 48) |
| <u>5 980 45</u> | <u>579 155 98</u> |
| <u>5 659 29</u> | <u>564 349 50</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (14 806 48)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

| | |
|----------------------|-------------|
| Depreciation Expense | (13 893 01) |
| Capital Outlay | <u>-</u> |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (28 699 49)

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Tobacco, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Tobacco. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2006 tax roll millage rate was 2.2306 mills, and the taxable value was \$90,360,591.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---------------------------------------|-------------|
| Buildings, additions and improvements | 20-30 years |
| Vehicles and equipment | 5-15 years |

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 2 – Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority. The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

| | <u>Carrying Amounts</u> |
|---|-----------------------------|
| Total Deposits | <u>545 135 03</u> |
| Amounts in the bank balances are without considering deposits in transit or uncleared checks. | |
| | <u>Bank Balances</u> |
| Insured (FDIC) | 100 000 00 |
| Uninsured and Uncollateralized | <u>452 127 03</u> |
| Total Deposits | <u>552 127 03</u> |

The Township of Tobacco did not have any investments as of March 31, 2007.

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

| | <u>Balance 4/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 3/31/07</u> |
|--|---------------------------|--------------------|------------------|----------------------------|
| <u>Governmental Activities:</u> | | | | |
| Land | 5 000 00 | - | - | 5 000 00 |
| Buildings and improvements | 36 098 00 | - | - | 36 098 00 |
| Equipment | <u>187 708 00</u> | <u>-</u> | <u>-</u> | <u>187 708 00</u> |
| Total | 228 806 00 | - | - | 228 806 00 |
| Accumulated Depreciation | <u>(76 002 40)</u> | <u>(13 893 01)</u> | <u>-</u> | <u>(89 895 41)</u> |
| Net Capital Assets | <u>152 803 60</u> | <u>(13 893 01)</u> | <u>-</u> | <u>138 910 59</u> |

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2007, was \$3,179.50.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Tobacco does not issue building permits. Building permits are issued by the County of Gladwin.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------|---------------------------------|------------------------|------------------------------|
| General | 300 00 | Fire | 300 00 |
| General | 3 134 59 | Heron Cove | 3 134 59 |
| General | 14 914 65 | Current Tax Collection | 15 673 63 |
| Fire | 155 58 | | |
| Petrick Pine | 93 00 | | |
| Heron Cove | <u>510 40</u> | | |
| Total | <u>19 108 22</u> | Total | <u>19 108 22</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 10 – Budget Variances

During the fiscal year ended March 31, 2007, the Township incurred the following budget variances:

| <u>Fund/Activity</u> | <u>Budgeted Amount</u> | <u>Actual Amount</u> | <u>Budget Variance</u> |
|----------------------|----------------------------|--------------------------|----------------------------|
| General Fund: | | | |
| Highways and streets | 191 860 00 | 197 728 84 | 5 868 84 |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2007

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|-------------------|-------------------|--|
| Revenues: | | | | |
| Property taxes | 80 000 00 | 80 000 00 | 66 156 02 | (13 843 98) |
| Licenses and permits | 3 250 00 | 3 250 00 | 5 959 15 | 2 709 15 |
| State revenue sharing | 175 000 00 | 175 000 00 | 177 803 24 | 2 803 24 |
| Charges for services – PTAF | 7 100 00 | 7 100 00 | 34 619 65 | 27 519 65 |
| Charges for services – cemetery | 6 500 00 | 6 500 00 | 4 200 00 | (2 300 00) |
| Interest | 3 025 00 | 3 025 00 | 10 485 69 | 7 460 69 |
| Miscellaneous | 3 960 00 | 3 960 00 | 11 779 43 | 7 819 43 |
| Total revenues | <u>278 835 00</u> | <u>278 835 00</u> | <u>311 003 18</u> | <u>32 168 18</u> |
| Expenditures: | | | | |
| Legislative: | | | | |
| Township Board | 19 940 00 | 20 700 00 | 16 981 27 | (3 718 73) |
| General government: | | | | |
| Supervisor | 11 710 00 | 11 710 00 | 11 087 25 | (622 75) |
| Elections | 3 300 00 | 3 245 00 | 3 226 61 | (18 39) |
| Assessor | 30 000 00 | 29 425 00 | 29 325 63 | (99 37) |
| Clerk | 14 495 00 | 13 870 00 | 13 820 75 | (49 25) |
| Board of Review | 900 00 | 825 00 | 647 50 | (177 50) |
| Treasurer | 27 340 00 | 27 085 00 | 27 034 74 | (50 26) |
| Building and grounds | 9 900 00 | 9 900 00 | 7 697 56 | (2 202 44) |
| Cemetery | 13 850 00 | 10 370 00 | 10 255 59 | (114 41) |
| Public safety: | | | | |
| Planning | 8 100 00 | 8 100 00 | 6 538 92 | (1 561 08) |
| Zoning | 7 200 00 | 14 545 00 | 8 695 11 | (5 849 89) |
| Police protection | 200 00 | 200 00 | - | (200 00) |
| Public works: | | | | |
| Highways and streets | 191 860 00 | 191 860 00 | 197 728 84 | 5 868 84 |
| Street lights | 3 000 00 | 3 000 00 | 1 701 86 | (1 298 14) |
| Other: | | | | |
| Pension | 5 500 00 | 9 000 00 | 3 179 50 | (5 820 50) |
| Insurance | 5 500 00 | 5 000 00 | 4 499 00 | (501 00) |
| Contingency | 5 000 00 | 5 000 00 | - | (5 000 00) |
| Total expenditures | <u>357 795 00</u> | <u>363 835 00</u> | <u>342 420 13</u> | <u>(21 414 87)</u> |
| Excess (deficiency) of revenues over expenditures | (78 960 00) | (85 000 00) | (31 416 95) | 53 583 05 |
| Fund balance, April 1 | <u>85 000 00</u> | <u>85 000 00</u> | <u>309 018 26</u> | <u>224 018 26</u> |
| Fund Balance, March 31 | <u>6 040 00</u> | <u>-</u> | <u>277 601 31</u> | <u>277 601 31</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GARBAGE FUND
Year ended March 31, 2007

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|-------------------|-------------------|--|
| Revenues: | | | | |
| Interest | 1 000 00 | 1 000 00 | 613 30 | (386 70) |
| Special assessments | <u>81 157 00</u> | <u>81 157 00</u> | <u>97 478 86</u> | <u>17 321 86</u> |
| Total revenues | <u>82 157 00</u> | <u>82 157 00</u> | <u>99 092 16</u> | <u>16 935 16</u> |
| Expenditures: | | | | |
| Public works: | | | | |
| Sanitation | <u>137 803 00</u> | <u>137 803 00</u> | <u>114 056 12</u> | <u>(23 746 88)</u> |
| Total expenditures | <u>137 803 00</u> | <u>137 803 00</u> | <u>114 056 12</u> | <u>(23 746 88)</u> |
| Excess (deficiency) of revenues over expenditures | (55 646 00) | (55 646 00) | (14 963 96) | 40 682 04 |
| Fund balance, April 1 | <u>55 646 00</u> | <u>55 646 00</u> | <u>130 073 49</u> | <u>74 427 49</u> |
| Fund Balance, March 31 | <u>-</u> | <u>-</u> | <u>115 109 53</u> | <u>115 109 53</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE PROTECTION FUND
Year ended March 31, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------|--|
| Revenues: | | | | |
| Property taxes | - | - | 135 600 82 | 135 600 82 |
| Interest | <u>1 000 00</u> | <u>1 000 00</u> | <u>674 37</u> | <u>(325 63)</u> |
| Total revenues | <u>1 000 00</u> | <u>1 000 00</u> | <u>136 275 19</u> | <u>135 275 19</u> |
| Expenditures: | | | | |
| Public safety: | | | | |
| Fire protection | <u>124 000 00</u> | <u>124 000 00</u> | <u>104 379 60</u> | <u>(19 620 40)</u> |
| Total expenditures | <u>124 000 00</u> | <u>124 000 00</u> | <u>104 379 60</u> | <u>(19 620 40)</u> |
| Excess (deficiency) of revenues over expenditures | (123 000 00) | (123 000 00) | 31 895 59 | 154 895 59 |
| Fund balance, April 1 | <u>123 000 00</u> | <u>123 000 00</u> | <u>134 083 78</u> | <u>11 083 78</u> |
| Fund Balance, March 31 | <u>-</u> | <u>-</u> | <u>165 979 37</u> | <u>165 979 37</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2007

| | |
|-----------------------------|------------------|
| Township Board: | |
| Wages | 5 040 00 |
| Professional services | 2 680 00 |
| Payroll taxes | 4 215 97 |
| Memberships and dues | 1 655 29 |
| Miscellaneous | 3 390 01 |
| | <u>16 981 27</u> |
| Supervisor: | |
| Salary | 10 860 00 |
| Supplies | 227 25 |
| | <u>11 087 25</u> |
| Elections: | |
| Wages | 2 298 50 |
| Miscellaneous | 928 11 |
| | <u>3 226 61</u> |
| Assessor: | |
| Contracted services | 28 516 60 |
| Supplies | 809 03 |
| | <u>29 325 63</u> |
| Clerk: | |
| Salary – Clerk | 13 020 00 |
| Salary – Deputy | 45 50 |
| Miscellaneous | 755 25 |
| | <u>13 820 75</u> |
| Board of Review: | |
| Wages | 336 00 |
| Miscellaneous | 311 50 |
| | <u>647 50</u> |
| Treasurer: | |
| Salary – Treasurer | 17 640 00 |
| Salary – Treasurer – summer | 6 793 26 |
| Salary – Deputy | 647 00 |
| Tax roll preparation | 585 00 |
| Supplies | 860 53 |
| Miscellaneous | 508 95 |
| | <u>27 034 74</u> |
| Building and grounds: | |
| Wages – janitor | 4 020 00 |
| Operating supplies | 314 11 |
| Contracted services | 234 00 |
| Utilities | 3 129 45 |
| | <u>7 697 56</u> |
| Cemetery: | |
| Contracted services | 9 455 00 |
| Utilities | 363 99 |
| Miscellaneous | 436 60 |
| | <u>10 255 59</u> |
| Planning: | |
| Wages | 5 410 00 |
| Miscellaneous | 1 128 92 |
| | <u>6 538 92</u> |
| Zoning: | |
| Wages | 4 440 00 |
| Supplies | 4 255 11 |
| | <u>8 695 11</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2007

| | |
|--------------------------------------|--------------------------|
| Highways and streets: Maintenance | <u>197 728 84</u> |
| Street lighting | <u>1 701 86</u> |
| Pension | <u>3 179 50</u> |
| Insurance | <u>4 499 00</u> |
| Total Expenditures | <u><u>342 420 13</u></u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2007

| | <u>Garbage</u> | <u>Petrick Pine</u> | <u>Fire Protection</u> |
|--------------------------------------|-------------------|---------------------|------------------------|
| <u>Assets</u> | | | |
| Cash in bank | 104 514 53 | 3 723 39 | 154 593 25 |
| Taxes receivable | - | - | 11 530 54 |
| Special assessment receivable | 10 595 00 | 160 00 | - |
| Due from other funds | - | 93 00 | 155 58 |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>115 109 53</u> | <u>3 976 39</u> | <u>166 279 37</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Due to other funds | - | - | 300 00 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>300 00</u> |
| Fund balances: | | | |
| Unreserved: | | | |
| Undesignated | 115 109 53 | 3 976 39 | 165 979 37 |
| Total fund balances | <u>115 109 53</u> | <u>3 976 39</u> | <u>165 979 37</u> |
| Total Liabilities and Fund Balances | <u>115 109 53</u> | <u>3 976 39</u> | <u>166 279 37</u> |

| <u>Daleview</u> | <u>Heron Cove</u> | <u>Total</u> |
|-----------------|-------------------|-------------------|
| 1 511 42 | 2 720 67 | 267 063 26 |
| - | - | 11 530 54 |
| 75 00 | - | 10 830 00 |
| - | 510 40 | 758 98 |
| <u>1 586 42</u> | <u>3 231 07</u> | <u>290 182 78</u> |
| - | 3 134 59 | 3 434 59 |
| - | 3 134 59 | 3 434 59 |
| 1 586 42 | 96 48 | 286 748 19 |
| 1 586 42 | 96 48 | 286 748 19 |
| <u>1 586 42</u> | <u>3 231 07</u> | <u>290 182 78</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2007

| | <u>Garbage</u> | <u>Petrick Pine</u> | <u>Fire Protection</u> |
|---|--------------------------|------------------------|--------------------------|
| Revenues: | | | |
| Property taxes | - | - | 135 600 82 |
| Special assessments | 98 478 86 | 2 960 00 | - |
| Interest | <u>613 30</u> | <u>10 00</u> | <u>674 37</u> |
| Total revenues | <u>99 092 16</u> | <u>2 970 00</u> | <u>136 275 19</u> |
| Expenditures: | | | |
| Public safety: | | | |
| Fire protection: | | | |
| Fire Board | - | - | 1 200 00 |
| Contracted services | - | - | 103 179 60 |
| Public works: | | | |
| Highways and streets: | | | |
| Repairs and maintenance | - | 2 812 50 | - |
| Sanitation: | | | |
| Contracted services | <u>114 056 12</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>114 056 12</u> | <u>2 812 50</u> | <u>104 379 60</u> |
| Excess (deficiency) of revenues over expenditures | (14 963 96) | 157 50 | 31 895 59 |
| Fund balances, April 1 | <u>130 073 49</u> | <u>3 818 89</u> | <u>134 083 78</u> |
| Fund Balances, March 31 | <u><u>115 109 53</u></u> | <u><u>3 976 39</u></u> | <u><u>165 979 37</u></u> |

| <u>Daleview</u> | <u>Heron Cove</u> | <u>Total</u> |
|------------------------|---------------------|--------------------------|
| - | - | 135 600 82 |
| 1 725 00 | 3 222 48 | 106 386 34 |
| <u>3 86</u> | <u>8 59</u> | <u>1 310 12</u> |
| <u>1 728 86</u> | <u>3 231 07</u> | <u>243 297 28</u> |
| - | - | 1 200 00 |
| - | - | 103 179 60 |
| 2 304 00 | 3 134 59 | 8 251 09 |
| <u>-</u> | <u>-</u> | <u>114 056 12</u> |
| <u>2 304 00</u> | <u>3 134 59</u> | <u>226 686 81</u> |
| (575 14) | 96 48 | 16 610 47 |
| <u>2 161 56</u> | <u>-</u> | <u>270 137 72</u> |
| <u><u>1 586 42</u></u> | <u><u>96 48</u></u> | <u><u>286 748 19</u></u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2007

| | <u>Balance</u> <u>4/1/06</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>3/31/07</u> |
|--------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Cash in Bank | <u>72 008 47</u> | <u>2 767 600 29</u> | <u>2 813 221 21</u> | <u>26 387 55</u> |
| <u>Liabilities</u> | | | | |
| Due to other funds | 34 748 56 | 332 617 22 | 351 692 15 | 15 673 63 |
| Due to others | <u>37 259 91</u> | <u>2 434 983 07</u> | <u>2 461 529 06</u> | <u>10 713 92</u> |
| Total Liabilities | <u>72 008 47</u> | <u>2 767 600 29</u> | <u>2 813 221 21</u> | <u>26 387 55</u> |

TOWNSHIP OF TOBACCO
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2007

| | |
|--|---------------------|
| Cash on hand – beginning of year | <u>72 008 47</u> |
| Cash receipts: | |
| Taxes and assessments | 2 761 476 23 |
| Nonbusiness licenses – animal | 184 50 |
| Interest | <u>5 939 56</u> |
| Total cash receipts | <u>2 767 600 29</u> |
| Total beginning balance and cash receipts | <u>2 839 608 76</u> |
| Cash disbursements: | |
| Township General Fund | 99 830 06 |
| Township Garbage Fund | 109 370 56 |
| Township Fire Fund | 134 527 45 |
| Township Petrick Pine Fund | 3 227 00 |
| Township Daleview Fund | 2 025 00 |
| Township Heron Cove Fund | 2 712 08 |
| Gladwin County | 1 335 571 63 |
| Mid-Michigan Community College | 101 382 33 |
| Clare Gladwin Intermediate School District | 169 020 57 |
| Beaverton School District | 844 840 15 |
| Refunds | <u>10 714 38</u> |
| Total cash disbursements | <u>2 813 221 21</u> |
| Cash in Bank – End of Year | <u>26 387 55</u> |

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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KENNETH P. KUSTERER, CPA

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P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 16, 2007

To the Township Board
Township of Tobacco
Gladwin County, Michigan

We have audited the financial statements of the Township of Tobacco for the year ended March 31, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Tobacco in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Tobacco
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants